
**Clean Water
State Revolving Fund**

Financial Statements

June 30, 2013

Clean Water State Revolving Fund

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Independent Auditors' Report

Clean Water State Revolving Fund
Louisiana Department of Environmental Quality
Baton Rouge, Louisiana

We have audited the accompanying financial statements of Clean Water State Revolving Fund, an enterprise fund of the State of Louisiana, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the entity's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

As discussed in Note 1, the accompanying financial statements of Clean Water State Revolving Fund are intended to present the financial position, changes in financial position and cash flows of only that entity. They do not purport to, and do not, present fairly, the financial position of the Louisiana Department of Environmental Quality or the State of Louisiana as of June 30, 2013, and the changes in their financial position and their cash flows, for the year then ended, in conformity with the accounting principles generally accepted in the United States of America.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Clean Water State Revolving Fund as of June 30, 2013, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Financial Reporting

Clean Water State Revolving Fund's Administration Fund was not included within prior years' audited financial statements. In accordance with accounting principles generally accepted in the United States of America, the Administration Fund has been included in the accompanying financial statements. This matter has not affected our audit opinion for the year ended June 30, 2013.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Clean Water State Revolving Fund. The accompanying schedule of expenditures of federal awards at page 24 as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2014, on our consideration of the Clean Water State Revolving Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clean Water State Revolving Fund's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Russell E. Martinez, CPA". The signature is written in a cursive style.

Covington, Louisiana
January 30, 2014

Management's Discussion and Analysis

Clean Water State Revolving Fund

Management's Discussion and Analysis

Introduction

The following Management's Discussion and Analysis (the "MD&A") is a required supplement to the Clean Water State Revolving Fund's (the "CWSRF") financial statements. This section is designed to assist the reader in focusing on significant financial issues, provide an overview of CWSRF's financial activity, identify changes in CWSRF's financial position (its ability to address the next and subsequent year challenges), and identify individual program issues or concerns.

As with other sections of this financial report, the information contained within this MD&A should be considered only a part of a greater whole. The readers of this statement should take time to read and evaluate all sections of this report, including the footnotes and the other supplementary information that is provided in addition to the MD&A.

Financial Highlights

- The primary sources of funding for CWSRF's activities is capital contributions from the U.S. Environmental Protection Agency ("EPA") and interest and administrative fees charged against loans receivable.
- For the year ended June 30, 2013, capital contributions decreased by \$5.88 million to \$22.98 million as compared to capital contributions totaling \$28.86 million in 2012. Capital contributions decreased as a result of a decrease in capital available from EPA capitalization grants for loan disbursements.
- Capital contributions from the EPA American Recovery and Reinvestment Act (ARRA) of \$182,965 and EPA capitalization grant funds of \$503,060 were forgiven for the year ended June 30, 2013.
- Cash and cash equivalents increased by \$65.49 million in 2013. The increase is primarily due to the collection of loans receivable from municipalities.
- Loans receivable balance at June 30, 2013 and 2012 was \$191.41 million and \$229.83 million, respectively – a decrease of \$38.42 million. The decrease reflects the repayment of loan receivables and a faster pace than loan disbursements.
- As part of the \$25,000,000 LPFA Revenue Bond Series 2007 bond issue, \$3,200,000 was issued on July 25, 2012 and \$3,000,000 was issued June 13, 2013. These bonds were repaid the same day of issuance.

Overview of Financial Statements

This MD&A is an introduction to CWSRF's financial statements and accompanying notes to financial statements. This report also contains required supplementary information and other supplementary information.

The financial statements of CWSRF are presented as a special purpose government engaged only in business type activities - providing loans to other governmental entities. The statements provide both short-term and long-term information about CWSRF's financial position, which assists the reader in assessing CWSRF's economic condition at the end of the fiscal year. These statements are prepared using the accrual basis of accounting. The financial statements include the following:

Clean Water State Revolving Fund

Management's Discussion and Analysis

Statement of Net Position

The Statement of Net Position presents information on all of CWSRF's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position are expected to serve as a useful indicator of whether the financial position of CWSRF is improving or deteriorating.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position present information which reflects how CWSRF's net position changed during the past year. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

Statement of Cash Flows

The Statement of Cash Flows presents information showing how the Authority's cash changed as a result of current year's operating activities, noncapital financing activities, and investing activities. The statement of cash flows is prepared using the direct method and includes the reconciliation of operating income to net cash provided by or used in operating activities (indirect method) as required by GASB 34.

Notes to Financial Statements

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes can be found immediately following the financial statements.

Financial Analysis

Net Position

CWSRF's condensed combined statements of net position consist of the following at June 30:

	2013	2012	Variance	% Variance
ASSETS				
Cash and cash equivalents	\$ 334,704,748	\$ 269,211,992	\$ 65,492,756	24.33%
Loans receivable	191,411,454	229,830,241	(38,418,787)	-16.72%
All other assets	2,262,904	1,573,622	689,282	43.80%
	<u>\$ 528,379,106</u>	<u>\$ 500,615,855</u>	<u>\$ 27,763,251</u>	5.55%
LIABILITIES AND NET POSITION				
Liabilities				
Current liabilities	<u>\$ 959,826</u>	<u>\$ 406,178</u>	<u>\$ 553,648</u>	136.31%
Net Position				
Unrestricted	527,419,280	500,209,677	27,209,603	5.44%
	<u>527,419,280</u>	<u>500,209,677</u>	<u>27,209,603</u>	5.44%
	<u>\$ 528,379,106</u>	<u>\$ 500,615,855</u>	<u>\$ 27,763,251</u>	5.55%

Clean Water State Revolving Fund Management's Discussion and Analysis

The \$27.21 million increase in net position reflects the continued strong growth of CWSRF. In addition, cash and cash equivalents increased by \$65.49 million. This is the result of loans receivable being collected at a faster pace than loans are being disbursed.

For the year ended June 30, 2013, CWSRF collected \$86.56 million on loans receivable and issued new loans totaling \$48.14 million. The lower amount of loans disbursed is the result of a decrease in capital available from EPA capitalization grants and EPA ARRA capitalization grants for loan disbursements.

Revenues, Expenses, and Changes in Net Position

CWSRF's condensed combined statements of revenues, expenses, and changes in net position consist of the following at June 30:

	2013	2012	Variance	% Variance
Operating revenues	\$ 4,518,528	\$ 7,854,815	\$ (3,336,287)	-42.47%
Operating expenses	886,892	930,279	(43,387)	-4.66%
Operating income	3,631,636	6,924,536	(3,292,900)	-47.55%
Other revenues	24,303,022	31,921,716	(7,618,694)	-23.87%
Other expenses	725,055	2,526,738	(1,801,683)	-71.30%
	23,577,967	29,394,978	(5,817,011)	
Change in net position	27,209,603	36,319,514	(9,109,911)	-25.08%
Net position, beginning of year	500,209,677	463,911,636	36,298,041	7.82%
Net position, end of year	<u>\$ 527,419,280</u>	<u>\$ 500,231,150</u>	<u>\$ 27,188,130</u>	5.44%

CWSRF's operating revenues are earned from interest and fees calculated on the balance of loans receivable outstanding and program administrative fees paid by the EPA. The \$3.34 million decrease in operating revenues is the result of the significant decrease in loans receivable from 2012 to 2013.

Other revenues consist of EPA capitalization grants, EPA ARRA capitalization grants, and interest earned on cash held by the State of Louisiana's treasury. The \$7.62 million decrease is the direct result of a decrease in capital available from EPA capitalization grants and EPA ARRA capitalization grants.

Other expenses consist of the forgiveness of loan principal and bond issuance costs. CWSRF received principal forgiveness funds from EPA capitalization grants and EPA ARRA capitalization grants of \$686,025 and \$2,512,998 for the years ended June 30, 2013 and 2012, respectively. The loans made with these funds were forgiven as disbursed and must be repaid if certain loan conditions are not met.

Budgetary Information

Under the Louisiana constitution, money may only be drawn from the treasury through the Ancillary Appropriations Act. For the year ended June 30, 2013, the Louisiana Legislature authorized expenditures of \$45 million with a mid-year amendment allowing an additional \$30 million for a total of \$75 million. Since funds can only be used for limited purposes, CWSRF can retain resources to fund future loans and eligible program activities.

Clean Water State Revolving Fund Management's Discussion and Analysis

Debt Administration

CWSRF is allowed by statute to incur indebtedness but not allowed to issue bonds directly. To provide state matching funds when direct cash appropriations were not available, DEQ received approval from the EPA to borrow matching funds by using the interest portion of the revenues received. The secretary of DEQ, through a Resolution by Executive Order pursuant to R.S. 30:2301 *et seq.* was authorized, for state matching purposes, to borrow through the issuance of the department's note to the Louisiana Public Facilities Authority (LPFA), a conduit issuer of serial bonds for the department and the state.

CWSRF had no outstanding debt at June 30, 2013 and 2012. Additional information on CWSRF's long-term obligations can be found in Note 4 to the financial statements.

Economic Conditions and Outlook

In 2013, CWSRF program revenues continued to support new loan financing activity and administrative expenses. Although the total amount of new loan commitments was below 2012, the number of new projects financed in 2013 was comparable to the level of financing activity of past years. The present low interest rate environment makes CWSRF loans less attractive to some borrowers and the protracted economic recovery has slowed the development of larger public works expenditures. CWSRF program continued to improve its procedures in 2013 to provide attractive and efficient financing for publicly owned treatment works projects, and continues to evaluate its financing terms so it can be an attractive choice compared to other market options.

As a result of slowly improving economic conditions, the frequency of local entities experiencing strained revenue flows has diminished. To ensure that loans are repaid on time and in full, CWSRF uses a variety of analysis and surveillance measures to reduce the possibility of nonpayment. CWSRF has worked closely with loan recipients with strained revenues to ensure dedicated sources of revenue are sufficient, and when necessary has restructured loans in consideration of available short term cash flows. By diligently working with loan recipients, CWSRF anticipates full repayment of all loans.

Although reduced capitalization funds from EPA affect the cash flow, CWSRF has significant equity from loan receivables that can be used to provide funds for new loans if needed. CWSRF personnel continues to monitor the demand for new loans, and will work with its financial advisors on a revenue bond sale to meet required cash flows when needed.

Requests for Information

This financial report is designed to provide interested parties with a general overview of CWSRF's finances. Questions concerning the information provided in this report or requests for additional information should be addressed to: Vince Sagnibene, Undersecretary - P.O. Box 4303 - Baton Rouge, Louisiana 70821.

Financial Statements

Clean Water State Revolving Fund
Statement of Net Position
June 30, 2013

	Loan Program Fund	Administration Fund	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 317,407,700	\$ 17,297,048	\$ 334,704,748
Loan interest receivable	395,767	-	395,767
Loan fees receivable	-	199,048	199,048
Interest due from state treasury	55,406	3,019	58,425
Due from Environmental Protection Agency	768,516	-	768,516
Due from other funds	324,041	517,107	841,148
Loans receivable - current portion	17,186,897	-	17,186,897
	<u>336,138,327</u>	<u>18,016,222</u>	<u>354,154,549</u>
Noncurrent Assets			
Loans receivable	174,224,557	-	174,224,557
	<u>\$ 510,362,884</u>	<u>\$ 18,016,222</u>	<u>\$ 528,379,106</u>
LIABILITIES AND NET POSITION			
Current Liabilities			
Accounts payable	\$ -	\$ 20,212	\$ 20,212
Due to other state agencies	-	98,466	98,466
Due to other funds	517,107	324,041	841,148
	<u>517,107</u>	<u>442,719</u>	<u>959,826</u>
Net Position			
Unrestricted	509,845,777	17,573,503	527,419,280
	<u>\$ 510,362,884</u>	<u>\$ 18,016,222</u>	<u>\$ 528,379,106</u>

See accompanying notes to financial statements.

Clean Water State Revolving Fund
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2013

	Loan Program Fund	Administration Fund	Total
Operating Revenues			
Interest earned on loans receivable	\$ 2,879,188	\$ -	\$ 2,879,188
Administrative fees from loans receivable	-	947,736	947,736
Program administration fees from Environmental Protection Agency	691,604	-	691,604
	<u>3,570,792</u>	<u>947,736</u>	<u>4,518,528</u>
Operating Expenses			
Salaries and related expenses	485,720	19,410	505,130
Operating expenses and supplies	48,626	25,712	74,338
Administrative expenses	295,611	11,813	307,424
	<u>829,957</u>	<u>56,935</u>	<u>886,892</u>
Operating income	<u>2,740,835</u>	<u>890,801</u>	<u>3,631,636</u>
Non-operating Revenues (Expenses)			
Environmental Protection Agency capitalization grant - principal forgiveness	503,060	-	503,060
Principal forgiveness	(503,060)	-	(503,060)
Environmental Protection Agency ARRA capitalization grant - principal forgiveness	182,965	-	182,965
Principal forgiveness - ARRA	(182,965)	-	(182,965)
Interest earned on cash in state treasury	607,205	33,033	640,238
Bond issuance costs, interest, and fees	(39,030)	-	(39,030)
	<u>568,175</u>	<u>33,033</u>	<u>601,208</u>
Income before capital contributions	<u>3,309,010</u>	<u>923,834</u>	<u>4,232,844</u>
Capital Contributions			
Environmental Protection Agency capitalization grant	<u>22,976,759</u>	<u>-</u>	<u>22,976,759</u>
Change in net position	<u>26,285,769</u>	<u>923,834</u>	<u>27,209,603</u>
Net position, beginning of year	<u>483,560,008</u>	<u>16,649,669</u>	<u>500,209,677</u>
Net position, end of year	<u>\$ 509,845,777</u>	<u>\$ 17,573,503</u>	<u>\$ 527,419,280</u>

See accompanying notes to financial statements.

Clean Water State Revolving Fund
Statement of Cash Flows
For the Years Ended June 30, 2013

	Loan Program Fund	Administration Fund	Total
Cash Flows From Operating Activities			
Loan principal received from borrowers	\$ 86,557,784	\$ -	\$ 86,557,784
Loans disbursed	(48,138,997)	-	(48,138,997)
Loan interest received from borrowers	3,378,085	-	3,378,085
Loan administration fees received from borrowers	-	960,202	960,202
Program administration fees from Environmental Protection Agency	523,739	-	523,739
Receipts (disbursements) from other funds	429,202	(429,202)	-
Payments to employees	(485,720)	(19,410)	(505,130)
Payments to vendors	(205,335)	(18,833)	(224,168)
Payments for administrative expenses	(295,611)	(11,813)	(307,424)
Receipts from other state agencies	-	98,466	98,466
Net cash provided by operating activities	<u>41,763,147</u>	<u>579,410</u>	<u>42,342,557</u>
Cash Flows From Capital Financing Activities			
Funds received from Environmental Protection Agency capitalization grant	23,068,958	-	23,068,958
Funds received from Environmental Protection Agency ARRA capitalization grant	182,965	-	182,965
Principal forgiveness	(503,060)	-	(503,060)
Principal forgiveness - ARRA	(182,965)	-	(182,965)
Proceeds from sale of bonds	6,172,759	-	6,172,759
Principal paid on bonds	(6,200,000)	-	(6,200,000)
Interest and fees paid on bonds	(11,789)	-	(11,789)
Net cash provided by operating activities	<u>22,526,868</u>	<u>-</u>	<u>22,526,868</u>
Cash Flows From Investing Activities			
Interest earned on cash in state treasury	<u>590,744</u>	<u>32,587</u>	<u>623,331</u>
Net cash provided by investing activities	<u>590,744</u>	<u>32,587</u>	<u>623,331</u>
Net increase in cash and cash equivalents	<u>64,880,759</u>	<u>611,997</u>	<u>65,492,756</u>
Cash and cash equivalents - beginning of year	<u>252,526,941</u>	<u>16,685,051</u>	<u>269,211,992</u>
Cash and cash equivalents - end of year	<u>\$ 317,407,700</u>	<u>\$ 17,297,048</u>	<u>\$ 334,704,748</u>

See accompanying notes to financial statements.

Clean Water State Revolving Fund
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2013

	Loan Program Fund	Administration Fund	Total
Reconciliation of Operating Income to			
Net Cash Provided by Operating Activities			
Operating income	\$ 2,740,835	\$ 890,801	\$ 3,631,636
Adjustments to reconcile operating income to net cash provided by operating activities:			
(Increase) decrease in:			
Loans receivable	38,418,787	12,466	38,431,253
Loan interest receivable	498,897	-	498,897
Loan fees receivable	-	-	-
Due from Environmental Protection Agency	(167,865)	(517,107)	(684,972)
Due from other funds	(87,905)	-	(87,905)
Increase (decrease) in:			
Accounts payable	(156,709)	6,879	(149,830)
Due to other state agencies	-	98,466	98,466
Due to other funds	517,107	87,905	605,012
	<u>\$ 41,763,147</u>	<u>\$ 579,410</u>	<u>\$ 42,342,557</u>

See accompanying notes to financial statements.

Clean Water State Revolving Fund

Notes to Financial Statements

1. History and Summary of Significant Accounting Policies

Nature of Operations

Clean Water State Revolving Fund ("CWSRF") was established pursuant to Title VI of the Clean Water Act, as amended in 1987 (the Act). CWSRF presently operates under R.S. 30:2301-2306 (Act 296 of the 2010 Regular Session of the Louisiana Legislature). These statutes establish a state revolving loan fund capitalized by federal grants (Capitalization Grants for Clean Water State Revolving Funds, CFDA 66.458), by state funds when required or available, and by any other funds generated by the operation of the clean water revolving loan fund.

The Louisiana Department of Environmental Quality ("DEQ") is authorized to engage in activities regarding the sums on deposit in, credited to, or to be received by the state revolving loan fund. DEQ is a department of the State of Louisiana and was created in accordance with Louisiana Revised Statute (R.S.) 30:2011 as a part of the executive branch of government to oversee environmental protection within the State of Louisiana.

The Financial Services Division and Business and Community Outreach Division within DEQ are responsible for the operations of CWSRF in the State of Louisiana. These divisions within DEQ provide assistance to municipalities in developing, financing, and implementing wastewater treatment management plans and plants. Engineering oversight, design review, and inspection services as well as environmental assessment services are provided by the Business and Community Outreach Division and grant management, program administration, and financial services are provided by the Financial Services Division on eligible wastewater treatment projects. All efforts are directed toward improving water quality by assisting communities in providing wastewater treatment processes that meet established effluent limits and achieve the goals of the Clean Water Act.

Personnel

Personnel of DEQ administers CWSRF since CWSRF does not have any full-time employees. Time spent administering CWSRF by DEQ personnel is captured, and CWSRF subsequently reimburses DEQ. The charges include the salaries and benefits of the personnel, as well as indirect costs allocated to CWSRF based on direct salary costs. Personnel charging time to CWSRF are covered by the benefits available to employees of the State of Louisiana. CWSRF is also charged indirect costs through the cost allocation plan for general state expenses.

Reporting Entity

CWSRF follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

Clean Water State Revolving Fund

Notes to Financial Statements

CWSRF is part of the primary government of the State of Louisiana. The activities of CWSRF are included in the State of Louisiana's Comprehensive Annual Financial Report as an enterprise fund using the accrual basis of accounting. The State of Louisiana's Comprehensive Annual Financial Report is audited by the Louisiana Legislative Auditor and is available at the website of the Office of Statewide Reporting and Accounting Policy.

Basis of Accounting

The accounting policies of the Fund conform to Generally Accepted Accounting Principles as applicable to a governmental unit accounted for as a proprietary enterprise fund. The enterprise fund is used since the Fund's powers are related to those operated in a manner similar to a for profit business where an increase in net position is an appropriate determination of accountability.

CWSRF's records are maintained on the accrual basis of accounting. Under the accrual basis of accounting revenue is recognized when earned and expenses are recognized when the liability is incurred. Assets and liabilities associated with the operations of the Fund are included in the Statements of Net Position

Implementation of New Standards

Effective July 1, 2012, CWSRF implemented GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

Effective July 1, 2012, the Fund implemented the provisions of GASB No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"* (GASB No. 63) and early implemented the provisions of GASB No. 65, *"Items Previously Reported as Assets and Liabilities"* (GASB No. 65). GASB No. 63 provides guidance for reporting deferred outflows and deferred inflows of resources as introduced and defined in GASB Concepts Statement No.4 *"Elements of Financial Statements"* (Concepts Statement No.4). Concepts Statement No.4 defines a deferred outflow of resources as a consumption of net assets that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net assets applicable to a future reporting period. The impact on CWSRF's financial statements has been to replace the term "net assets" with "net position".

GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets or liabilities. As a result of early implementing this GASB, CWSRF has expensed the debt issuance costs on the 2012 Revenue Bond that prior to GASB 65 would have been capitalized. The impact of the pronouncement was considered as part of the refunding that occurred in July 2012. However, prior periods have not been restated as the change would not significantly impact the prior year's financial statement presentation.

Clean Water State Revolving Fund

Notes to Financial Statements

Net Position

The statement of net position reports net position as the difference between all other elements within the statement and should be displayed in the three following components:

- Net Investment in Capital Assets - Consists of capital assets including restricted capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted - Consists of amounts with constraints placed on the use by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted - All other amounts that do not meet the definition of "restricted" or "net investment in capital assets." All of CWSRF's resources are unrestricted.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes during the reporting period. Actual results could differ from those estimates.

Budgets and Budgetary Accounting

CWSRF is budgeted annually by the Louisiana Legislature through the Ancillary Appropriations Act. The Ancillary Appropriations Act (Act 43 of the 2012 Regular Session as amended) authorized expenditures of \$75,000,000 for the loan program for the 2013 fiscal year and allows CWSRF to retain resources to fund future loans and eligible program activities. Because CWSRF is an enterprise fund, a budgetary comparison is neither required nor presented in the financial statements.

Cash and Cash Equivalents

The statement of cash flows considers all funds deposited with the Louisiana Department of Treasury to be cash and cash equivalents, regardless of actual maturities.

Loans Receivable

CWSRF is operated as a direct loan program. The program provides loans and other financial assistance to municipalities for the purpose of planning, constructing publicly owned treatment works, implementing nonpoint source pollution management programs, and developing and implementing estuary conservation and management plans.

The program lends federal and state monies directly to municipalities. For every \$5 provided by the federal government, the state is required to provide a matching share of \$1. The effective match share reflects a federal rate of 83.33% and a state rate of 16.67%. The federal share is received through grants made by the EPA. Recycling of principal and interest repayments from borrowing municipalities allows the program to operate in perpetuity thereby benefiting other municipalities wishing to borrow in the future.

Clean Water State Revolving Fund

Notes to Financial Statements

Borrowers pay principal and interest directly to the loan program and all monies are deposited directly to the program. Principal repayments can only be used to make additional loans to municipalities. Interest earnings on cash deposits and program loans can be used to make additional loans. In addition, with EPA approval, interest earnings on cash deposits and program loans are used to pay off revenue bonds sold to capitalize the program by providing state matching funds.

Loans made by CWSRF must be made at or below market interest rate with a repayment period not exceeding 20 years plus an interim construction-financing period. A variable rate based on the Baa 20-year bond rate listed in the "Bond Buyer Index" one week prior to loan closing was introduced during fiscal year 2005. The 0.5% administrative fee was added to this rate to determine the total rate charged. The rate was adjusted annually in accordance with the rates forecast by the "Index" at the closing date. This rate allowed a lower rate during the early construction years and has been used on all loans closed beginning with fiscal year 2005 until October 11, 2006, when the rate of 2.95% was implemented.

In an effort to increase borrowing from CWSRF, DEQ reduced its current interest rate from 2.95% to 0.95%, which is 0.45% interest plus 0.5% administrative fee charged only on loan monies drawn. The interest rate was set by the secretary of the department on January 26, 2009, and the interest rate on loans made by CWSRF for water quality improvement projects may be adjusted in accordance with current market rate and availability of funds.

As evidence of its obligations to pay principal and interest on the loans, each borrower must establish a dedicated source of revenue for repayment of the loan [33 USC 1383(d)(1)(C)]. For substantially all of these loans, the loan recipient issues bonds that are purchased by DEQ, as administrator of CWSRF, to secure the repayment of the principal loaned. Principal and interest on the bonds are paid to CWSRF and upon repayment of the loan, the bonds are returned to the loan recipient. Minimum required coverage ratios are established depending on the nature of the bonded indebtedness issued by the loan recipient as follows:

- Limited tax bonds: the principal and interest due in any year on the amount borrowed shall not exceed 75% of the revenues estimated to be received from the levy of the pledged millage in the year in which the indebtedness is issued (R.S. 39:742.2).
- Sales tax bonds: the total amount of principal and interest falling due in any year, together with principal and interest falling due in such year on any previously issued sales tax bonds, shall never exceed 75% of the amount of sales tax revenues estimated by the governing authority of the issue to be received by it in the calendar year in which the bonds are issued (R.S. 39:698.4).
- Revenue bonds: the requirements for coverage are established contractually in the loan documents (R.S. 39:1019). Expected coverage ratios might range from 110% to 130% or more. CWSRF goal for collections of the dedicated revenues for repayment of the loan secured by revenue bonds is 125%; however, many factors can create deviation from this goal. It is customary to use the same minimum required coverage ratio as was previously established for outstanding debt of the loan recipient.

Clean Water State Revolving Fund

Notes to Financial Statements

- General obligation bonds: the requirements for coverage are statutorily set. The governing authority of the issuer is required to impose and collect annually, in excess of all other taxes, a tax on all property subject to taxation by the issuer sufficient in amount to pay the interest and the principal falling due each year, or such amount as may be required for any sinking fund necessary to retire said bonds at maturity (R.S. 39:569). Typically, the bond millage is adjusted each year so as to generate enough revenues to pay debt service in the ensuing calendar year. No coverage requirements or debt service reserves exist because the tax can be adjusted each year *without any limitation whatsoever* to collect the appropriate amount each year.

In the case of sales tax bonds and revenue bonds, each loan recipient is also required to set up a debt service reserve fund equal to 10% of the loan amount or one year's principal and interest for the purpose of paying principal and interest should the dedicated revenues be insufficient for that purpose. The requirement to maintain a debt service reserve fund is not statutorily required but is usual and customary for these kinds of indebtedness.

The ARRA provided additional funds to CWSRF to help stimulate the economy through infrastructure investment. ARRA requires that no less than 50% of the funds be provided as additional subsidization in the form of principal forgiveness, grants, or negative interest loans.

Loans funded by principal forgiveness grants are advanced to local agencies on a cost reimbursement basis and forgiven as each disbursement occurs. Loan agreements require repayment of the forgiven loan if all program requirements are not met.

Allowance for Bad Debts

Because of the reserve requirements and the absence of any delinquent loans, there is no provision for uncollectible amounts.

Revenue Bond Issue Costs and Original Issue Premium

In accordance with GASB 65, revenue bond issue costs are expensed when incurred. Revenue bond original issue premium is to be amortized over the term of the bonds using the effective interest method.

Operating Revenues and Expenses

CWSRF distinguishes between operating revenues and expenses and non-operating items in the Statements of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from carrying out the purpose of CWSRF of providing low interest loans to communities and providing assistance for prevention programs and administration.

Operating revenues consist of interest and administrative fees earned from loans receivable and program administrative fees earned from the EPA. Operating expenses include direct salary costs and benefits expenses and allocated indirect costs. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or capital contributions.

In accordance with generally accepted accounting principles, monies received from the EPA and the State of Louisiana as matching funds are recorded as capital contributions, except for principal forgiveness which is reported as non-operating.

Clean Water State Revolving Fund

Notes to Financial Statements

Compensated Absences and Employee Benefits

CWSRF has no full-time employees. CWSRF pays a portion of the salary of various employees of DEQ for administrative services. Therefore, no compensated absences, pension benefits, or postretirement benefits are provided by CWSRF.

2. Cash and Cash Equivalents

As reflected on the Statement of Net Position, CWSRF has a cash balance of 334,704,748. All monies of CWSRF are deposited with the Louisiana Department of Treasury, which is responsible for maintaining these deposits in accordance with Louisiana State Law. Consequently, management of CWSRF does not have any control over the cash balances.

The Louisiana Department of Treasury is responsible for maintaining the cash balances and securing such balances from risk through custodial agreements. The risk disclosures required by accounting principles generally accepted in the United States are included with the State of Louisiana's Comprehensive Annual Financial Report.

Interest earnings on cash deposits held by the Louisiana Department of Treasury are received monthly and classified as non-operating revenue when earned.

3. Loans Receivable

CWSRF makes loans to qualified political subdivisions of the State of Louisiana for projects that meet the eligibility requirements of the program. Loans are financed by capitalization grants, state match, and revolving funds. Effective interest rates on loans vary between 0.95% and 4.95%, including .50% administration fee, and are generally repaid over 20 years starting within one year after the project is completed. Loans receivable do not include ARRA projects.

The following schedule provides details of loans receivable at June 30, 2013:

Completed projects	\$ 69,515,358
Projects in progress	121,896,096
	<hr/>
	191,411,454
Current portion of loans receivable	(17,186,897)
	<hr/>
	<u>\$ 174,224,557</u>

Clean Water State Revolving Fund

Notes to Financial Statements

The scheduled principal payments on loans maturing in subsequent years are as follows:

For the Year Year Ending June 30:	Projects in Progress	Completed Projects	Total
2014	\$ 9,550,128	\$ 7,636,769	\$ 17,186,897
2015	12,355,453	9,188,000	21,543,453
2016	11,299,132	8,961,985	20,261,117
2017	9,884,452	6,778,064	16,662,516
2018	8,979,118	6,005,000	14,984,118
Thereafter	69,827,813	30,945,540	100,773,353
	<u>\$ 121,896,096</u>	<u>\$ 69,515,358</u>	<u>\$ 191,411,454</u>

Encumbered Balances

Approximately 53% of cash and undrawn capitalization grants are encumbered as follows:

Cash and cash equivalents - loan program fund	\$ 334,704,748
Undrawn capitalization grants (excluding ARRA)	<u>8,158,574</u>
Total cash and undrawn grants	<u>\$ 342,863,322</u>
Loans in progress - encumbered	\$ 182,862,319
Loans as a percentage of total	53.33%

The 'loans in progress – encumbered' represent projects that are under construction and have only drawn a portion of the total approved loan amount. This figure consists of the total approved principal less the principal loaned to date.

Clean Water State Revolving Fund

Notes to Financial Statements

Concentrations

CWSRF has loans due from 63 different local governments and agencies. The outstanding loan balances for each of the local governments listed in the following schedule exceeds 5 percent of total loans receivable. The combined outstanding loan balances at June 30, 2013 of these major local governments represent approximately 44 percent of the total loans receivable.

<u>Borrower</u>	<u>Authorized Loan Amount</u>	<u>Outstanding Loan Balance</u>	<u>Percentage of Total Loans Receivable</u>
Delhi	\$ 11,000,000	\$ 9,978,579	5.21%
Kenner	55,890,678	15,703,616	8.20%
Shreveport	82,614,906	46,411,363	24.25%
Terrebonne Parish	17,000,000	11,960,171	6.25%
	<u>\$ 166,505,584</u>	<u>\$ 84,053,729</u>	43.91%

4. Long-Term Obligations

CWSRF is allowed by statute to incur indebtedness but not allowed to issue bonds directly. To provide state matching funds when direct cash appropriations were not available, DEQ received approval from the EPA to borrow matching funds by using the interest portion of the revenues received. The secretary of DEQ, through a Resolution by Executive Order pursuant to R.S. 30:2301 *et seq.* was authorized, for state matching purposes, to borrow through the issuance of the DEQ's note to the Louisiana Public Facilities Authority (LPFA), a conduit issuer of serial bonds for the department and the state.

Series 1995 Revenue Bonds

The first serial bond issue was called Louisiana Public Facilities Authority Taxable Revenue Bonds (CWSRF Match Project) Series 1995. This indebtedness was secured solely from the pledge of the interest portion of the revenues received by the DEQ from loans made by the program. The LPFA is a public trust and public corporation organized and existing for the benefit of the State of Louisiana. In accordance with the \$15,000,000 Loan Agreement between the LPFA and the DEQ and in accordance with the \$15,000,000 Indenture of Trust between the LPFA and First National Bank of Commerce, the trustee, the LPFA issued serial bonds for \$15,000,000 and was repaid the \$15,000,000 by June 30, 1999. A total of \$14,654,221 had been generated for matching fund purposes by the issuance of these serial bonds.

Series 2001 Revenue Bonds

The second serial bond titled Louisiana Public Facilities Authority Revenue Bonds (CWSRF Match Project) Series 2001 was issued during the fiscal year ending June 30, 2002. This indebtedness was secured solely from the pledge of the interest portion of the revenues received by the DEQ from loans made by the program. The Loan Agreement between the LPFA and DEQ was for a total of \$12,000,000 of which all funds were issued and repaid by June 30, 2006. A total of \$11,757,295 was generated for matching fund purposes by the issuance of these serial bonds.

Clean Water State Revolving Fund

Notes to Financial Statements

Series 2007 Revenue Bonds

The third serial bond was called Louisiana Public Facilities Authority Revenue Bonds (CWSRF Match Project) Series 2007 and was issued during the fiscal year ending June 30, 2007. This indebtedness was secured solely from the pledge of the interest portion of the revenues received by the DEQ from loans made by the program. The Loan Agreement between the LPFA and DEQ was for a total of \$10,000,000. The \$10,000,000 Indenture of Trust was issued between the LPFA and Hancock Bank of Louisiana and amended to \$20,000,000 on May 20, 2010, then to \$25,000,000 on May 10, 2012. \$4,000,000 was issued during the fiscal year ending June 30, 2007, \$6,000,000 was issued during the fiscal year ending June 30, 2010, \$4,500,000 was issued during the fiscal year ending June 30, 2011, and an additional \$3,200,000 was issued during fiscal year ending June 30, 2012. These bond issuances were retired in the fiscal year of issuance.

The following schedule summarizes the bond draw request made during the year ended June 30, 2013.

Series 2007 Revenue Bonds	Balance at July 1, 2012	Issuances	Issuance Costs	Proceeds	Retirements	Balance at June 30, 2013
Draw request #6	\$ -	\$ 3,200,000	\$ 13,764	\$ 3,186,236	\$ 3,200,000	\$ -
Draw request #7	-	3,000,000	13,477	2,986,523	3,000,000	-
	<u>\$ -</u>	<u>\$ 6,200,000</u>	<u>\$ 27,241</u>	<u>\$ 6,172,759</u>	<u>\$ 6,200,000</u>	<u>\$ -</u>

As of June 30, 2013, a total of \$23,672,425 was generated for matching fund purposes by the issuance of the Series 2007 Revenue Bonds. Additional issuance from this series may be issued as needed for future state matching purposes.

Bond Costs

Bond issuance costs are absorbed by bond proceeds and are offset from cumulative bond proceeds as a reduction of state match and are therefore not required to be charged against the 4% administrative costs ceiling in accordance with 40 CFR 35.3120(g)(2).

Interest on the unpaid principal of these issuances was payable at the rate of LIBOR plus two percent. Interest was computed on the basis of actual days over a 365 day year.

The following summarizes the bond costs for the year ended June 30, 2013:

Series 2007 Revenue Bonds	Interest	Other Fees	Total
Draw request #6	\$ 197	\$ 162	\$ 359
Draw request #7	180	11,250	11,430
	<u>\$ 377</u>	<u>\$ 11,412</u>	<u>\$ 11,789</u>

Clean Water State Revolving Fund

Notes to Financial Statements

5. Capital Contributions and State Matching

Capital Contributions

CWSRF has been awarded 24 federal grants from the EPA. These grants are available through the EPA's Automated Clearing House Payment System (ACH) and the Automated Standard Application for Payments (ASAP). These grants are authorized by Title VI of the Clean Water Act, as amended in 1987 and require matching funds from the state. As of June 30, 2013, the EPA has awarded grants of \$409,742,923 to the state, of which \$401,584,349 has been drawn for loans and administrative expenses. The following summarizes the grants awarded, amounts drawn on each grant as of June 30, 2013, and balances available for future loans:

For the Year Ended June 30:	Federal Grant Amount	Cumulative Funds Drawn as of July 1, 2012	Funds Drawn During Year Ended June 30, 2013	Cumulative Funds Drawn as of June 30, 2013	Remaining Grant Funds Available at June 30, 2013
1988 through 2008	\$ 297,581,423	\$ 297,581,423	\$ -	\$ 297,581,423	\$ -
2009	7,456,000	7,456,000	-	7,456,000	-
2010	7,456,100	7,456,100	-	7,456,100	-
2011	22,398,000	17,753,000	1,286,726	19,039,726	3,358,274
2012	31,770,000	4,442,658	22,527,042	26,969,700	4,800,300
2013	-	-	-	-	-
	<u>366,661,523</u>	<u>334,689,181</u>	<u>23,813,768</u>	<u>358,502,949</u>	<u>8,158,574</u>
ARRA	43,081,400	42,808,416	272,984	43,081,400	-
	<u>\$ 409,742,923</u>	<u>\$ 377,497,597</u>	<u>\$ 24,086,752</u>	<u>\$ 401,584,349</u>	<u>\$ 8,158,574</u>

State Matching

The state has provided matching for federal grant awards through General Fund and state capital outlay appropriations totaling \$26,753,586. In addition, part of the required matching share has been provided through the issuance of Revenue Match Bonds secured by revenue of CWSRF (see note 4). As of June 30, 2013, bonds totaling \$50,900,000 have been issued and repaid resulting in net proceeds of \$50,083,940 being used as state matching funds. Additional match bonds will be negotiated as needed to cover future capitalization grants. As of June 30, 2013, matching contributions are as follows:

	Cumulative State Match as of July 1, 2012	Matching Funds During Year Ended June 30, 2013	Cumulative State Match as of June 30, 2013
State cash contribution	\$ 26,753,586	\$ -	\$ 26,753,586
Revenue bond proceeds	43,922,971	6,160,969	50,083,940
	<u>\$ 70,676,557</u>	<u>\$ 6,160,969</u>	<u>\$ 76,837,526</u>

Clean Water State Revolving Fund

Notes to Financial Statements

6. Loan Administration Fees

Four percent of the federal grant amounts awarded by the EPA are allocated to fund the administrative cost of operating the loan program. The following schedule presents each grant, the four percent allocated from each grant, the cumulative expenses incurred and drawn in administering the program, and the amount available to be drawn from the EPA for future administrative expenses.

For the Year Ended June 30:	Federal Grant Amount	4% Authorized For Program Administration	Administrative Expenses Drawn as of June 30, 2013	Grant Funds Available For Administration at June 30, 2013
1988 through 2008	\$ 297,581,423	\$ 11,903,257	\$ 10,395,118	\$ 1,508,139
2009	7,456,000	298,240	109,566	188,674
2010	7,456,100	298,244	153,245	144,999
2011	22,398,000	895,920	344,235	551,685
2012	31,770,000	1,270,800	515,679	755,121
2013	-	-	-	-
	<u>\$ 366,661,523</u>	<u>\$ 14,666,461</u>	<u>\$ 11,517,843</u>	<u>\$ 3,148,618</u>

At June 30, 2013 CWSRF had \$415,414 of grant funds available for program administration.

7. Risk Management

CWSRF participates in the State of Louisiana's Risk Management Program. Losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund operated by the Office of Risk Management (the agency responsible for the state's risk management program) or by legislative appropriation. Refer to the State of Louisiana's risk disclosure in the June 30, 2013 Comprehensive Annual Financial Report for more details.

8. Subsequent Events

Management has evaluated subsequent events through January 30, 2014, which is the date the financial statements were available to be issued.

Based on CWSRF's grant application dated March 1, 2013, the U.S. Environmental Protection Agency awarded CWSRF a \$14,677,000 capitalization grant on July 15, 2013.

Required Supplementary Information

Clean Water State Revolving Fund
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

<u>Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Environmental Protection Agency		
Direct Programs:		
Capitalization grants for state revolving funds	66.458	\$ 23,813,768 *
ARRA Capitalization grants for state revolving funds	66.458	272,984 *
		<u>272,984</u>
Total expenditures of federal awards		<u>\$ 24,086,752</u>

** audited as a major program*

Notes to Schedule of Expenditures of Federal Awards

General

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures incurred by Clean Water State Revolving Fund ("CWSRF"). All awards have been received directly from the U.S. Department of Environmental Quality.

Basis of Presentation

This schedule includes the federal grant activity of CWSRF and is presented on the accrual basis of accounting for proprietary funds, which is described in Note 1 of the Notes to Financial Statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Loans to Subrecipients

Capitalization Grants for Clean Water State Revolving Fund CFDA# 66.458 include \$23,752,803 of expenditures that were disbursed as loan awards to qualifying subrecipients, which includes \$503,060 of principal forgiveness loans.

ARRA Capitalization Grant for Clean Water State Revolving Fund CFDA# 66.458 includes \$182,965 of expenditures that were disbursed as loan awards to qualifying subrecipients, which includes \$182,965 of principal forgiveness loans.

Other Required Reports

**Independent Auditors' Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Clean Water State Revolving Fund
Louisiana Department of Environmental Quality
Baton Rouge, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Clean Water State Revolving Fund, an enterprise fund of the State of Louisiana, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Clean Water State Revolving Fund's basic financial statements, and have issued our report thereon dated January 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Clean Water State Revolving Fund's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Clean Water State Revolving Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Clean Water State Revolving Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clean Water State Revolving Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Pinell E. Martinez" followed by a period and the initials "HP".

Covington, Louisiana
January 30, 2014

**Independent Auditors' Report on Compliance for Each Major Program and on
Internal Control Over Compliance Required by OMB Circular A-133**

Clean Water State Revolving Fund
Louisiana Department of Environmental Quality
Baton Rouge, Louisiana

Report on Compliance for Each Major Federal Program

We have audited Clean Water State Revolving Fund's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Clean Water State Revolving Fund's major federal programs for the year ended June 30, 2013. Clean Water State Revolving Fund's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Clean Water State Revolving Fund's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Clean Water State Revolving Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Clean Water State Revolving Fund's compliance.

Opinion on Each Major Federal Program

In our opinion, Clean Water State Revolving Fund, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Clean Water State Revolving Fund, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Clean Water State Revolving Fund's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Clean Water State Revolving Fund's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose



Covington, Louisiana
January 30, 2014

Clean Water State Revolving Fund
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

A. Summary of Audit Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified _____ yes ✓ no

Significant deficiencies identified that
not considered to be material weaknesses _____ yes ✓ none reported

Noncompliance material to financial
statements noted _____ yes ✓ no

Federal Awards

Internal control over major programs:

Material weaknesses identified _____ yes ✓ no

Significant deficiencies identified that
not considered to be material weaknesses _____ yes ✓ none reported

Type of auditors' report issued on compliance
for major programs: Unmodified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section .510(a) _____ yes ✓ no

Identification of major programs:

CFDA Number	Name of Federal Program
66.458	Capitalization Grants for State Revolving Funds
66.458	ARRA Capitalization Grants for State Revolving Funds

Dollar threshold used to distinguish between
Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk audit _____ yes ✓ no

Clean Water State Revolving Fund
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

B. Findings Related to Financial Statements

There were no findings required to be reported under generally accepted *Government Auditing Standards*.

C. Findings and Questioned Costs Related to Federal Awards

There were no findings or questioned required to be reported under OMB *Circular A-133*.

Clean Water State Revolving Fund
Schedule of Prior Year Findings and Questioned Costs
For the Year Ended June 30, 2013

A. Findings in Accordance with *Government Auditing Standards*

No findings or questioned costs noted for the year ended June 30, 2012.

B. Findings and Questioned Costs for Federal Awards Under OMB Circular A-133

No findings or questioned costs noted for the year ended June 30, 2012.